

Summary of Business Rules for Accounting for and Reporting of Military Equipment

Contract Close Out Adjustments

Objective

- Prescribe the accounting requirements for contract close out costs.

Baseline Valuation Methodology

- No effect. Contract closeout adjustments are not factored into calculation of baseline valuation costs.

Mid-Term Valuation Methodology

- Expense contract closeout costs that are not considered material in relation to the total cost of the acquisition program in the period incurred.
- Capitalize contract closeout costs that are considered material in relation to the total cost of the acquisition program as part of associated end items (through cost allocation) or separately (requires creation of parent-child relationship in property accountability systems).

Military Equipment Valuation Project

Position Paper: Contract Close Out Adjustments

Description of Issue

Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 26, provides that all general property, plant, and equipment (PP&E) shall be recorded at cost. Cost shall include all costs required to bring PP&E to a form and location suitable for its intended use. The cost of acquiring property, plant, and equipment may include amounts paid to vendors; labor and other direct or indirect production costs (for assets produced or constructed); and engineering, architectural, and other outside services for designs, plans, specifications; and surveys. Additional guidance on costs to be included is provided in the position paper entitled “Full Cost.”

Once an item is delivered and accepted, it should be capitalized and entered into DoD’s accounting and accountability systems. However, it is likely that subsequent to delivery, additional transactions such as final vendor payments, claims, liquidated damages, or recoveries, will occur, often over a lengthy period. These transactions are referred to herein as “contract close out adjustments.”

Proposed Policy

If contract close out adjustments are not considered material in relation to the total cost of the acquisition program, they should be charged to expense in the period in which incurred.

If the contract close out adjustments are considered material in relation to the total cost of the acquisition program, they should be capitalized. Adjustments may be capitalized as a separate item and depreciated over the average remaining useful life of the items of PP&E to which they apply or added to the acquisition cost of individual end items of PP&E and depreciated over the remaining useful lives of the individual end items.

Authoritative Guidance

Statement of Federal Financial Accounting Standards No.6, *Accounting for Property, Plant, and Equipment*